

## Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 ISO-00 AGR-10 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PA-02

PRS-01 ABF-01 FSE-00 NSC-05 SS-15 STR-04 CEA-01 SSO-00

NSCE-00 INRE-00 USIE-00 /098 W  
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O 280910Z OCT 75 ZFF-4

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC IMMEDIATE 5862

AMEMBASSY ADDIS ABABA IMMEDIATE

AMEMBASSY BUJUMBURA IMMEDIATE

AMEMBASSY DAR ES SALAAM IMMEDIATE

AMEMBASSY KIGALI IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY LUSAKA IMMEDIATE

AMEMBASSY MOGADISCIO IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

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PLEASE PASS ALSO EXIMBANK AND OPIC

E. O. 11652: N/A

TAGS: EFIN, KE

SUBJECT: KENYA DEVALUES SHILLING

1. SUMMARY: DUNCAN NDEGWA, GOVERNOR CENTRAL BANK OF KENYA, ANNOUNCED EVENING OCTOBER 25 THAT AS OF OCT. 27 SHILLING WOULD BE PEGGED TO SDR AT VALUE 9.66 SHILLINGS PER 1 SDR. ACTION RESULTED IN 14.3 PERCENT DEVALUATION IN RESPECT TO US DOLLAR. NEW DOLLAR/SHILLING RATE WILL BE DETERMINED DAILY ON BASIS IMF'S DOLLAR/SDR RATE. SHILLING TRADED AT 8.16 TO DOLLAR OCTOBER 27 AS OPPOSED TO 7.14 PREVIOUS WEEK. SINCE JANUARY 1974, SHILLING HAD  
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BEEN PEGGED TO DOLLAR. SHILLING DEVALUATION WITH RESPECT

TO MAJOR EUROPEAN CURRENCIES ALL IN NEIGHBORHOOD 14 PERCENT. UGANDAN AND TANZANIAN SHILLINGS WILL BE VALUED AT PAR WITH KENYAN CURRENCY. END SUMMARY.

2. CITING "UNCERTAINTIES" OF INTERNATIONAL EXCHANGE, NDEGWA STATED IT NO LONGER IN KENYA'S LARGER INTEREST TO TIE SHILLING TO ANY SINGLE CURRENCY. SDR PEG CHOSEN AS MEANS OF CUSHIONING SHILLING FROM FLUCUTATIONS EXPERIENCED BY INDIVIDUAL CURRENCIES.

3. NDEGWA ALSO STATED IMBALANCE BETWEEN EXPORT EARNINGS AND IMPORT EXPENDITURES REQUIRED EXCHANGE RATE WHICH REFLECTS "TRUE COST" OF IMPORTS AND PROVIDES "FULL VALUE TO EXPORTERS." GOVERNOR ANTICIPATES HIGHER INCOME FOR EXPORTERS OF KENYA'S MAJOR AGRICULTURAL PRODUCTS: COFFEE, TEA, SISAL, PYRETHRUM, AND PREDICTED INCREASE IN TOURIST TRAVEL.

4. SINCE COSTS OF IMPORTS WILL RISE, GOVERNOR WARNED OF POSSIBLE PRICE HIKES, ASSURING, HOWEVER, THAT MARK-UPS WOULD NOT EXCEED 10 PERCENT.

5. NAIROBI NEWSPAPERS DAILY NATION AND EAST AFRICAN STANDARD TOOK OPPOSING VIEWS ON BENEFITS OF DEVALUATION. FORMER BELIEVED NDEGWA OVERLOOKED VITAL ROLE IMPORTED CAPITAL EQUIPMENT PLAYS IN KENYAN AGRICULTURAL DEVELOPMENT AND WONDERED HOW DOMESTIC PRODUCTION WOULD BE STIMULATED WITHOUT ACCESS TO REASONABLY-PRICED FOREIGN INPUTS. STANDARD COMMENDED GOVERNMENT DECISION TO ESTABLISH RATIONAL EXCHANGE RATE NOTING THE PREVALENCE OF BLACK MARKET CURRENCY DEALINGS AND SMUGGLING. EDITORIAL QUESTIONED, HOWEVER, WHETHER EXPATRIATE PRODUCERS IN AGRICULTURAL SECTOR WOULD BE INDUCED TO RE-INVEST THEIR EXTRA EARNINGS IN KENYA.

6. COMMENT: EXCHANGE RATE ANNOUNCEMENT APPEARED AFTER MONTHS OF SPECULATION WITHIN BANKING, DIPLOMATIC, AND COMMERCIAL CIRCLES ABOUT POSSIBLE DEVALUATION. DECISION APPARENTLY MADE IN QUARTERLY MEETING OF UNCLASSIFIED

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EAC CENTRAL BANK GOVERNORS WEEK OF OCTOBER 13 AND THEN CLEARED WITH RESPECTIVE GOVERNMENTS.

7. IN FACE OF STEADILY APPRECIATING DOLLAR, KENYA FOUND IT INCREASINGLY DIFFICULT TO ENFORCE TIGHT EXCHANGE CONTROL POLICIES AND PURSUE AMBITIOUS IMPRT RESTRAINT PROGRAM AIMED AT CORRECTING BALANCE OF PAYMENTS DISEQUILIBRIUM. ACCORDING TO CENTRAL

BANK SOURCES, STATUS OF FOREIGN RESERVES NOT RPT NOT  
MOTIVE FOR DEVALUATION, SINCE IMPORT CONTROL MEASURES  
ENACTED IN LATE 1974 AND JUNE 1975 HAVE SUCCESSFULLY  
CONTAINED RESERVE DRAIN TO \$10 MILLION THROUGH END  
OF THIRD QUARTER. LOSS IN SAME PERIOD LAST YEAR  
AMOUNT TO \$56 MILLION. DEVALUATION REINFORCES GOK'S  
COMMITMENT TO BROAD RESTRUCTURING OF COUNTRY'S  
ECONOMY REMOVING LONG-STANDING FACTOR PRICE DISTORTIONS  
SUCH AS COST DISPARITY BETWEEN LABOR AND CAPITAL,  
WHICH CONTRIBUTED TO BALANCE OF PAYMENTS CRISIS  
AND SLUGGISH GDP GROWTH OVER LAST TWO YEARS.

8. NDEGWA'S REFERENCE TO TEXTBOOK AXIOM THAT  
DEVALUATION BOOSTS EXPORT INCOME AND ARTIFICIALLY LOW  
PRODUCER PRICES HAVE RESTRICTED PRODUCTION ESSENTIAL  
FOODSTUFFS. ONLY WITHIN LAST YEAR HAS GOK BEGUN  
OFFICIALLY TO RECOGNIZE AND REWARD EXPORT POTENTIAL  
OF AGRICULTURAL SECTOR BEYOND COFFEE AND TEA. MORE-  
OVER, KENYA'S MAJOR AGRICULTURAL EXPORTS DEMONSTRATE  
GENERALLY LOW PRICE ELASTICITY OF DEMAND. KENYA  
MAY REAP INCREASED EXPORT INCOME FROM FEW SELECTED  
COMMODITIES SUCH AS PROCESSED FRUITS AND VEGETABLES  
WHERE MARKETING ALREADY ESTABLISHED AND COUNTRY  
ALREADY PRICE-COMPETITIVE.

9. THRUST OF DEVALUATION CLEARLY TOWARD CURBING  
IMPORTS PARTICULARLY CAPITAL GOODS AND LUXURY ITEMS.  
PRIMARY INTEREST ALSO BOLSTERING KENYA'S LAGGING  
TOURIST INDUSTRY. GOK ANXIOUS TO ELIMINATE "PACKAGE  
TOUR" DEALS WHEREBY OVERSEAS OPERATORS REPORTEDLY  
RECEIVE FULL PAYMENT FROM TRAVELLERS PRIOR TO TRIP  
AND ENGAGE IN VARIOUS ACCOUNTING PRACTICES WHICH  
MEAN LITTLE FOREIGN EXCHANGE REACHES KENYA.  
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10. NDEGWA'S EXPECTATIONS OF LIMITING PRICE INCREASES  
TO 10 PERCENT ARE PROBABLY OVERLY OPTIMISTIC UNLESS  
GOK MORE AGGRESSIVE IN ENFORCEMENT OF PRICE CONTROLS.  
ALREADY ENACTED. COMING ON TOP OF THE RECENT OPEC  
INCREASE IN CRUDE PETROLEUM PRICES, DEVALUATION SHOULD  
PUSH GASOLINE COSTS ALONE WELL OVER 10 PERCENT.  
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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
**Draft Date:** 28 OCT 1975  
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**Decaption Note:**  
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**Disposition Case Number:** n/a  
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**Disposition Event:**  
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